VZCZCXRO8760
PP RUEHRG
DE RUEHBR #1775 2351318
ZNR UUUUU ZZH
P 231318Z AUG 06
FM AMEMBASSY BRASILIA
TO RUEHC/SECSTATE WASHDC PRIORITY 6452
INFO RUEHRG/AMCONSUL RECIFE 5330
RUEHSO/AMCONSUL SAO PAULO 7839
RUEHRI/AMCONSUL RIO DE JANEIRO 2730
RUEHSG/AMEMBASSY SANTIAGO 5704
RUEHBU/AMEMBASSY BUENOS AIRES 4213
RUEHAC/AMEMBASSY ASUNCION 5603
RUEHMN/AMEMBASSY MONTEVIDEO 6414
RUEHQT/AMEMBASSY QUITO 1945
RUEHPE/AMEMBASSY LIMA 3135
RUEHLP/AMEMBASSY LA PAZ 4802
RUEHCV/AMEMBASSY CARACAS 3396
RUEHBO/AMEMBASSY BOGOTA 3893
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDO/USDOC WASHDC
RHEHNSC/NSC WASHDC

UNCLAS BRASILIA 001775

SIPDIS

SENSITIVE
SIPDIS

STATE PASS USAID FOR LAC - JOHN GARRISON
STATE PASS OPIC FOR VP R.DRUMHELLER
NSC FOR FEARS
TREASURY FOR OASIA - D.DOUGLASS, J.HOEK
STATE PASS TO FED BOARD OF GOVERNORS FOR ROBITAILLE
USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSEN/ADRISCOLL/MWAR D
USDOC FOR 3134/ITA/USCS/OIO/WH/RD/SHUPKA

E.O. 12958: N/A
TAGS: ECON PGOV PREL EFIN EINV BR
SUBJECT: BRAZIL: MOVEMENT ON PUBLIC-PRIVATE PARTNERSHIPS

REF: 05 BRASILIA 1118

This cable is sensitive but unclassified, please protect accordingly.

¶1. (SBU) The GoB is close to launching a much-delayed inter-agency review of its first Public-Private Partnership (PPP) proposals for major infrastructure investments. These projects would be reviewed by the Ministers of Planning and Budget (Paulo Bernardo), Finance (Guido Mantega) and the President's Chief of Staff (Dilma Rousseff), who together comprise the PPP Management Committee. The GoB hopes PPPs will make more attractive otherwise marginally profitable investments in infrastructure through arrangements such as cost sharing, joint investments or operating subsidies. The GoB now expects that the first project bid will be for the repair and rehabilitation of a federal highway (BR-116) in the states of Bahia and Minas Gerais, the investment in which would be partially recovered through tolls, with the remainder paid by the GoB. A federal fund, endowed with assets such as stock in partially-privatized oil parastatal Petrobras, will guarantee GoB performance of its PPP contract obligations.

¶2. (SBU) Although the GoB initially billed PPPs as the solution for Brazil's long-standing infrastructure bottlenecks and lack of public investment, implementation of the December 2004 PPP law has been very slow. After years of tight investment budgets, the GoB's ability to evaluate projects of this size and complexity has withered. To evaluate projects, therefore, the GoB had to hire consultants through a standard public bid (a process that can take as much as year). Having hired a consulting firm to evaluate the first two projects put forward by GoB technicians (completion of the north-south railway and a port expansion project) the consultants reported back after several months that the two projects were commercially viable without subsidies, and therefore not appropriate to the PPP framework, but rather for simple concessions.

¶3. (SBU) According to Andrew Gunther of the World Bank's International Finance Corporation (IFC), the IFC is proposing to help the GoB deal with these bureaucratic limitations by creating a fund, to be financed jointly by the Brazilian Development Bank (BNDES), the IFC and other donors such as the Inter American Development Bank (IDB), which would help the GoB select projects and then finance the consulting work necessary to put the projects out for bid. By avoiding substantial portions of the Brazilian bureaucratic bog, this approach could speed substantially the process of getting PPPs out to bid. The IFC, Gunther told us, also will be approaching other donors to sound out their interest in supporting the fund.

¶4. (SBU) The GoB is interested in seeing substantial involvement by foreign firms and investors in PPP projects. It hopes that involvement by foreign investors and construction/engineering firms will increase competition and improve financing terms. Foreign business will still have to navigate bureaucracy, as many states and municipalities also plan to sponsor PPP projects based on state and local-level statutes that vary from the federal legislation and from each other. The quality of the guarantees offered to investors by sub-national governments may vary widely.

¶5. (SBU) Comment: Although it is ironic that the GoB faces a bottleneck in its capability to evaluate PPP projects, themselves aimed at addressing infrastructure bottlenecks, the IFC fund nevertheless presents a useful opportunity to assist the GoB move more quickly on projects that ultimately may prove attractive for U.S. investments and exports, both of engineering services and equipment. End Comment.

SOBEL